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Synopsis

International
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Weekly [redacted] b3

15 February 1985

Perspective

The Oil Market Outlook: Another Difficult Year for OPEC [redacted] b3

The oil market outlook in 1985 indicates that downward pressure on oil prices will continue and another price reduction is likely, possibly as early as this spring. Non-Communist oil consumption is expected to increase only marginally this year. At the same time, non-OPEC oil production will again increase—albeit at a decreasing rate. As a result demand for OPEC oil probably will at best hold relatively flat this year. [redacted] b3

The recent OPEC agreement on prices is generally viewed as too little too late. The move reduced the average OPEC oil price by less than 50 cents per barrel, not enough to dampen increases in non-OPEC oil capacity or to spur demand. Lower revenues will encourage some OPEC members to cheat on their production quotas at the earliest possible moment. Put simply, the perception that the organization has lost control of the oil market remains widespread. [redacted] b3

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OPEC's efforts to gain the cooperation of non-OPEC producers, such as Mexico, Egypt, Malaysia, and Brunei, have proved largely unsuccessful. Indeed, Cairo and Mexico City apparently believe that OPEC members must accept the role of residual supplier. [redacted]

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The market outlook for 1985 and the next few years indicates that OPEC faces formidable challenges, even if the organization manages to avoid another cut this year. OPEC has not formulated an effective strategy to:

- Equitably prorate its market share among members in a market where reduced stock usage exaggerates seasonal shifts in demand and pressures on Saudi Arabia, OPEC's swing supplier.
- Deal with the uncertainty on production levels and revenue streams that has resulted from the movement away from term contracts.
- Control prices on the growing volume of product exports.
- Accommodate Nigeria's need—and pressure from other members—for a higher output level while also meeting likely Iraqi demands for a quota increase, perhaps later this year. [redacted] b3

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Briefs

Energy

Western Europe's Crude Oil Costs Rising

Despite a drop of $6 per barrel in world oil prices since March 1983, the dollar's appreciation against West European currencies has more than offset lower prices, because crude oil costs are denominated in dollars. The continued strength of the US dollar has contributed to a further delay in the long-anticipated recovery in oil demand in Western Europe. Data indicate European oil consumption rose only by 1 percent in the first three quarters of 1984, as compared with a 5-percent increase in the United States. Increased cost, however, is one of several factors that continue to slow the recovery of oil demand in Western Europe. Japan with its healthy economic recovery has seen oil demand increase by 6 percent in the first three quarters of 1984 despite the strength of the US dollar. [redacted] b3

Local Currency Crude Oil Cost Per Barrel

	February 1983	30 January 1985	Percent Change February 1983/ 30 January 1985
US dollars (Saudi benchmark)	34	28	−17.6
Japan (*yen*)	8,032.2	7,125.2	−11.3
France (*franc*)	234	270.8	15.7
West Germany (*DM*)	82.5	88.7	7.5
Italy (*lira*)	47,532	54,586	14.8
United Kingdom (*L*)	22.2	24.8	11.7
Netherlands (*gulder*)	91.0	100.3	10.2
Spain (*peseta*)	4,411.8	4,905.6	11.2
Greece (*drachma*)	2,840.6	3,620.4	27.5
West European (average)			14.1

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Bidding for South Korean Nuclear Plants

Seoul is expected to solicit tenders for nuclear power plants 11 and 12 in the second half of 1985, but the bidding—originally scheduled for 1982—could be scuttled by opposition from energy planners who favor coal. [redacted]

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International Finance

Mexico Pledges More Belt-Tightening

New austerity measures announced last week appear designed to gain IMF approval for Mexico's 1985 economic program. The government disclosed it will cut 1985 public spending by $465 million, sell or close 236 state companies, and freeze hiring. In addition, Mexico City plans to rely more on tariffs and reduce use of licensing. The IMF, which has been negotiating with the administration since November, is currently in Mexico City reviewing the revised 1985 economic plan. In January the IMF rejected Mexico's package for this year and asked for tougher steps on the budget and inflation. Although we believe these latest concessions will be sufficient for the IMF, we do not expect Mexico to fully implement them. Almost all of the 1985 budget will probably be spent before the July elections, and the government will attempt to keep its pledge to maintain real wages and employment. Moreover, unions are likely to fight closures of large state-owned factories. [redacted] b3

Portugal Seeks Jumbo Loan

Lisbon is asking international bankers to participate in a $500 million credit facility to help finance Portugal's current account deficit, which is expected to reach $1 billion for 1985. An arrangement worked out between Lisbon and the lead managers of the loan sets up a mixed facility: one-half of the total credit will be a traditional syndicated loan for eight years at five-eighths percentage point over LIBOR; the other half will be a revolving credit at three-eighths percentage point over LIBOR. The deal probably requires participation in the short-term facility if banks want to subscribe to the conventional syndicated loan. [redacted] the Portuguese chose this route to attract financing for the cheaper revolving standby facility. The heavy oversubscription of last month's credit for the state-owned electricity company and the dramatic improvement in Portugal's current account deficit during the last two years suggest that Lisbon probably will not encounter difficulties obtaining sufficient commitments. [redacted] b3

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Turkish Loan Difficulties

Turkey's attempt to arrange a new and innovative $500 million credit continues to face difficulty. The credit requires the lead banks to underwrite the successive issuance of short-term notes on the Euromarket over a seven-year period. As of early February the syndication manager had lined up only some $450 million. Problems began surfacing late last year when several banks decided against participating. These bankers pressured the Turkish Central Bank to abandon the so-called hybrid scheme in favor of a traditional bank syndication because Turkey's credit rating is far below that of others, such as Sweden, that have successfully used this type of facility. Turkey's Central Bank Governor, however, has predicted optimistically that the credit will be completed by the end of February. Failure to finalize the deal could damage Turkey's reputation in the international financial community. [redacted] b3

Global and Regional Developments

Debtor LDCs Improve Reserve Positions

Foreign exchange reserves of the top 20 LDC debtors rose 20 percent from yearend 1983 levels, reaching almost $69 billion by the end of third quarter 1984. The most impressive gains were registered by Brazil and Mexico—the two largest LDC debtors. Argentine reserves grew to almost $2 billion but were still below the 1982 level. Substantial declines were registered by the

Top 20 Debtor LDCs: Foreign Exchange Reserves [a]

	Billion US $				Reserve-to-Import Ratio (*months*)
	1981	1982	1983	1984 [b]	
Total	**68.26**	**52.63**	**57.16**	**68.64**	
Brazil	6.60	3.93	4.35	9.23	7
Mexico	4.07	0.83	3.91	7.01	9.5
Argentina	3.27	2.51	1.17	1.90	5.5
South Korea	2.68	2.81	2.35	2.56	1
Venezuela	8.16	6.58	7.64	8.69	12
Indonesia	5.01	3.14	3.72	4.75	4
Egypt	0.72	0.70	0.77	0.77	1
Philippines	2.20	1.72	0.79	0.26	[c]
India	4.70	4.31	4.94	5.87	4.5
Chile	3.21	1.81	2.04	2.23	8
Malaysia	4.10	3.77	3.78	4.05	3.5
Algeria	3.70	2.42	1.88	1.75	2
Nigeria	3.90	1.61	0.99	0.99	1.5
Peru	1.20	1.35	1.36	1.51	7.5
Thailand	1.73	1.54	1.61	1.61	2
Colombia	4.80	3.86	1.90	0.77	2
Morocco	0.23	0.22	0.11	0.10	[c]
Pakistan	0.72	0.97	1.97	1.05	2
Taiwan	7.24	8.53	11.86	13.52 [d]	8
Sudan	0.02	0.02	0.02	0.02	[c]

[a] Total reserves minus gold; end of period.
[b] Third quarter.
[c] Less than one-half month.
[d] May 1984.

[redacted]

Philippines, Colombia, and Pakistan. The net increase was due largely to improved sales in recovering developed-country markets. Most of the debtors have held imports close to 1983 levels. For the group, reserve holdings equal over four months of imports—a one-half month gain since 1983. [redacted]

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Tighter COCOM Controls

COCOM countries at their recent high-level meeting adopted several measures to tighten strategic export controls. For the first time, they agreed to some restrictions on sales of COCOM-controlled products to Cuba, although member countries still will have wide discretion on enforcement. The delegates agreed to work more closely with other countries to prevent diversion of COCOM items through their territories. They failed to resolve licensing questions involving China and formed an ad hoc subcommittee to study the problem. Exports to China now account for over 80 percent of COCOM cases—up from only 1 percent five years ago. The meeting was less acrimonious than the last one, reflecting the growing consensus that more effective multilateral control is necessary. Many COCOM countries probably already impose restraints on sales to Cuba, although not in coordination with other COCOM members. [redacted] b3

No Agreement Expected at Cocoa Meeting

The cocoa producing and consuming countries meeting in Geneva next week are not likely to agree on a replacement for the International Cocoa Agreement (ICCA) that expires in September. Consumers are proposing a midpoint of $1 a pound within an as yet unagreed-upon target range, and producers want a $1.10 to 1.55 range. A less contentious issue will be export restrictions to supplement the existing buffer-stock mechanism. Although most producers favor export quotas, they might agree to some form of the EC's proposal to withdraw cocoa from the market when prices fall to near the ICCA minimum. Cocoa prices are several cents below the current $1.10 per pound ICCA minimum, and many producers believe an effective new pact will be necessary to prevent further price declines. Even though consumption has outpaced production in the last two seasons, most observers expect the production surpluses this year will put more downward pressure on prices. [redacted] b3

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National Developments

Developed Countries

Spanish Exports Surge

A sharp increase in Spanish exports last year dramatically improved the current account balance and allowed Madrid to meet its GDP growth target. Madrid estimates real exports rose 20 percent in 1984, versus 7 percent in 1983. Export earnings rose about $4 billion, helping swing the current account from a deficit of $2.5 billion in 1983 to a surplus of $2 billion—the government target was a $500 million deficit. Export performance was also almost entirely responsible for raising real GDP growth to 2.5 percent, continuing the recovery begun in 1983. We believe the export boom stemmed mainly from a gain in competitiveness after the 1982 devaluation, slumping domestic demand, and a pickup of growth in major trading partners. [redacted] expect a slight erosion of price competitiveness coupled with strengthening domestic demand to slow real export growth to 4 to 5 percent this year. Another large current account surplus is anticipated, giving Madrid enough leeway to ease monetary policy and encourage investment growth. [redacted] b3

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Less Developed Countries

Bolivian General Strike Threat

La Paz has devalued the peso by 80 percent and raised food, fuel, and transportation prices by an average of 400 percent. To blunt the effects of these measures, workers have received a 330-percent pay hike. The country's largest labor confederation has denounced the adjustments and is considering calling an indefinite general strike. Labor leaders almost certainly will call for the general strike in hopes of forcing President Siles to scale back austerity measures. A strike would heighten military concern and provide radicals in the labor movement with new opportunities for provoking violence. The economic gains are likely to prove ephemeral, as financial concessions and repeated wage increases continue to fuel the country's hyperinflation. [redacted] b3

New Jamaican Economic Reverses

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Conflicts Over the Lebanese Economy

Lebanon's rapidly deteriorating economy is becoming a new focus of antigovernment actions that will add to the country's climate of violence. [redacted] b1 b3 Meanwhile, "Islamic Jihad"—probably the radical Shia Hizballah—has claimed it bombed several Beirut banks two weeks ago to protest against those profiting from the fall of the Lebanese pound. The rapid fall of the pound in the last two months has caused prices to rise 30 to 40 percent—as much as the increase for all of 1984. Militias continue to siphon off customs duties, the government's major source of revenue. The government has aggravated the situation by appointing governors of the central bank who have no financial experience. [redacted] b3

Ethiopian Austerity Measures

Ethiopia this week announced the imposition of a national drought-relief tax, equaling one month's pay for all workers. Chairman Mengistu on Saturday announced plans to cut imports—primarily of automobiles, luxury goods, and textiles—and to impose petroleum rationing. In addition, Mengistu declared that all Ethiopians will be called on to serve tours at relief shelters and resettlement camps. Government policies largely had protected the urban population from the famine's effects, but the new austerity measures and developing food shortages in the cities now will affect it adversely. Mengistu is unlikely to extend these measures, particularly the tax and fuel rationing, to the military, his primary power base. [redacted] b3

Papua New Guinea Closes Gold Mine

The four-year-old, $1 billion Ok Tedi gold and copper project in western Papua New Guinea will close 28 February by government order. The government was providing 20 percent of the project's cost in order to gain the transport facilities and hydroelectric system associated with the copper-mining phase. For several months, the mining consortium of US, Australian, and West German firms had been denying charges that, because of falling copper prices, it planned to abandon the project after stripping it of better-than-expected gold ores. Workers who have threatened to destroy the mine if it is closed have been pacified by the consortium's promises to renegotiate, but the government has yet to show signs of relenting. Port Moresby—generally friendly to foreign capital—undoubtedly intends the shutdown as a strong warning that investors will be expected to live up to original contract provisions. [redacted] b3

Communist

Hungarian Forint Moving Toward Convertibility b1 b3

[redacted] Budapest plans to make the forint partially convertible during the 1986-90 plan period, possibly as early as 1986. As a first step, this July the National Bank will begin future trading in forints, which will allow Hungarian trading companies to hedge against foreign exchange rate fluctuations. In a later phase, Western exporters could take payment either in dollars or in forints. Such forint earnings will carry an exchange guarantee and earn favorable deposit rates at the National Bank. Restrictions on movements of capital, the hard currency allotment for tourists traveling abroad, and Hungary's transactions within CEMA would not be affected. [redacted] however, that Budapest would probably delay these moves if US interest rates remain high and exchange markets stay volatile. Although these measures could potentially reduce Hungary's need for Western currencies, it would also make management of the country's money supply more difficult. [redacted] b3

Personnel Changes at China's S&T Commission b1 b3

China's State Science and Technology Commission (SSTC) Minister, Song Jian—who will lead the Chinese delegation to the United States for the April meetings on US-China S&T cooperation—has appointed four new vice ministers, [redacted] All are younger, well-educated men, with diverse backgrounds in industry as well as academic research. The new appointments should strengthen SSTC ties to important segments of the research and development community, and facilitate reforms designed to make research more responsive to industry needs. Beijing has been working on reform of the S&T system for several years. Song Jian's appointments indicate that the minister, who took over the SSTC only last September, is moving aggressively to surround himself with reform-minded personnel. A major policy statement outlining changes in the management and funding of scientific research is expected at the end of February. [redacted] b3

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Record Rice Crop in Laos

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Favorable weather and expanded acreage led to a 1.3-million-metric-ton harvest last year, [redacted] roughly matching domestic needs. This figure exceeds the 1983 crop by 200,000 tons. Earlier projections [redacted] of a poor harvest had spurred an appeal for international food aid at midyear, resulting in contributions of roughly 20,000 tons of rice. The United States provided 5,000 tons. Despite the record crop, distribution problems may still cause localized shortages over the next few months, [redacted]

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OECD: Dealing With an Oil Price Drop [redacted] b3

Most OECD governments would pass on to consumers the benefits of further declines in oil prices—boosting GNP growth and lowering inflation—but they would not take advantage of lower inflation to stimulate their economies. [redacted]

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The Policy Response

Because the increased strength of the dollar largely has offset the decline in the price of oil since early 1983 for OECD economies other than the United States, most governments would now welcome the opportunity to pass on to consumers any decline in the price of oil. Although some governments would consider taxing away an oil price decline to ease budget deficits, they probably would wait to see the size and permanence of a price cut before acting. Although depreciation of the dollar would magnify a drop in oil prices, the gains would be reversed if the dollar strengthened again. Because of continuing problems with inflation and budget deficits, we believe that few, if any, OECD governments would

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respond to lower oil prices by adopting more expansionary policies, despite their desire to reduce unemployment. [redacted] b3

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USSR: Problems Exporting Oil and Gas [redacted] b3

The Soviets have substantially reduced oil and gas exports to some West and East European customers, largely because an unusually harsh winter in the USSR has caused spot shortages of domestic energy. Later this year, the USSR should again be able to meet ~~its gas export~~ commitments. The same may not be true for oil, however. The currently depressed level of oil output and sharply reduced stocks will make it difficult for the USSR to meet its domestic and East European oil commitments while sustaining hard currency exports. Although reactions have been muted, this supply crunch could be causing concerns among some customers about the USSR's reliability as an energy supplier during the winter. [redacted] b3

Recent Energy Export Difficulties

In recent weeks, the Soviets notified several West European customers that the USSR will not export any crude oil or oil products to them during the month of February. [redacted]

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In addition to the suspension in oil exports, the USSR this winter has reduced substantially natural gas deliveries to several West and East European customers. Soviet gas deliveries to Austria, for example, were reduced by 40 percent last month. Cutbacks of similar proportions affected customers in at least two other countries. Moreover, the cutbacks appear to have lasted far longer than normal during periods of peak demand in the USSR. [redacted] b3

Underlying Causes

The cutbacks have been caused or aggravated by several factors:

- This year's winter weather has been unusually severe.
- Soviet oil production has fallen in recent months.
- There is little room for increased domestic consumption once oil and gas commitments to Eastern Europe and hard currency customers are filled. [redacted] b3

Normally, harsh winter weather at Soviet ports and oil and gas fields makes it difficult for Moscow to meet its energy export commitments without some interruptions in supply. Poor planning, transportation problems, inadequate storage capacity, and substantial seasonal increases in domestic demand are mostly to blame. The USSR attempts to fully commit its oil and gas supplies, so imbalances between supply and demand or impediments to distribution—such as those caused by this winter's harsh weather—almost always cause shortages for some end users, domestic or foreign. In the case of oil, the shortages appear to be getting worse each year. [redacted] b3

Buyers' Concerns

So far, the impact of the recent export cutoffs on affected countries has been marginal. Alternative supplies of both oil and gas are still plentiful, even though the market has firmed somewhat recently. [redacted] b3

How Soviet cancellations in energy deliveries during periods of harsh weather and peak domestic demand are affecting the USSR's reputation as a reliable energy supplier is unclear. Some West European business concerns have complained in recent months about dependence on the USSR for energy supplies. Reactions in West European capitals to the recent delays have been limited. [redacted] b3

Because of the soft oil market, West European dependence on Soviet oil is not a crucial issue. Nevertheless, Moscow is the largest single supplier of fuel oil to Western Europe, and some OECD countries buy a large portion of their oil needs from the USSR. Finland and Iceland, for example, receive 95 percent and 70 percent of their oil needs, respectively, from the USSR. Six other West European nations buy at least 15 percent of their total oil imports from the USSR. [redacted] b3

In contrast to Western Europe, the Communist countries are probably more concerned about the Soviet cutoff. All of Moscow's East European allies, except for Romania, depend on the USSR for at least three-fourths of their oil supplies. Most of these countries also reexport some Soviet oil to earn hard currency. In Asia, the USSR is almost the sole source of oil for the economies of Vietnam, Mongolia, Cambodia, and Afghanistan. In Latin America, Cuba depends on Moscow for all of its oil imports, and Nicaragua depends on the Soviets for over half of its oil. [redacted] b3

Moscow has promised its East European allies that it will not reduce oil exports to them through 1990 as long as they meet their export and other obligations to Moscow on time. We have some doubt, however, that the USSR will live up to this commitment. [redacted] b3

Implications for Hard Currency Earnings

The suspensions of oil and gas deliveries will reduce first-quarter hard currency earnings, but the outlook for the year as a whole is less certain. In recent years, Soviet shortfalls during the first quarter have been offset by greater deliveries later in the year. In the past three years, the USSR managed to export record amounts to OECD countries by the end of

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the year. Most of the increases in 1982 were at the expense of deliveries to Eastern Europe. In 1983 and 1984, however, the reexports of OPEC oil accounted for much of the rebound. The USSR receives oil from OPEC nations mostly in return for arms deliveries. Soviet imports of OPEC oil have increased from about 80,000 b/d in 1981 to about 220,000 b/d in 1983. By third quarter 1984, these imports had increased again, to roughly 250,000 to 270,000 b/d. [redacted] b3

Earnings from sales of oil and gas provide the USSR with ~~almost 60~~ percent of its total hard currency receipts from merchandise exports (including arms sales). Oil sales make up about 50 percent—earning about $15.6 billion in 1983 and probably more than $15 billion again last year. This year, however, the USSR will have to overcome some unfavorable trends if it is to maintain the value of its oil exports to the West without disrupting deliveries to its socialist partners:

- Exports are off to a very slow start during the first quarter.
- Oil prices may continue to slide somewhat in 1985.
- Soviet oil production could well decline again this year in the wake of the roughly 65,000-b/d drop in 1984. [redacted] b3

Soviet reexports of OPEC oil will help sustain earnings from oil sales, but they do not represent a net improvement to the USSR's overall hard currency position. Resale of this oil represents an extra step required of the Soviets to translate its arms deliveries into hard currency. [redacted] b3

Gas sales earned the USSR about $3.3 billion in 1983, and probably close to the same amount last year. Contract deliveries to Western Europe are scheduled to increase slightly in 1985. The Soviets should have no trouble meeting these commitments, given their considerable success in increasing gas output in recent years. These sales should earn them about $3.3-3.5 billion this year. [redacted] b3

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Nicaragua: Economic Vulnerabilities [redacted] b3

Bleak export prospects promise a worsening of Nicaragua's serious economic and financial problems. Managua is virtually broke, has already spent the revenues from this year's presold agricultural exports, and is likely to fail to make numerous promised ~~deliveries. To~~ maintain government imports and step up military spending, the Sandinistas are reducing subsidies to local consumers and producers and further stalling international creditors. As a result, we expect the economic situation to deteriorate as consumer good shortages worsen and more producers face bankruptcy. [redacted] b3

The Sandinistas fear they may be faced with economic sanctions and already have begun to diversify trade and to try to secure more financial support. Although US sanctions probably would result in foreign exchange losses of about $25 million—which Managua could withstand—the indirect costs probably would be substantial. Even if there are no sanctions, increased Communist support would be needed to bolster the troubled economy. [redacted] b3

Dismal Economic Situation

Exports are in serious trouble. Earnings from coffee and cotton—Nicaragua's largest exports—are likely to be as much as 50 percent below the Sandinista's target this year. Insurgents have hit government plantations hard, and coffee beans and cotton on private plots are rotting because of inadequate government prices and critical labor shortages. Private growers report that chronic fertilizer and pesticide shortages and equipment problems are also hampering agricultural output. [redacted]

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At the same time, government mismanagement and harassment of the private sector has gutted business confidence, led to steep business losses, and derailed productive investment. [redacted] punitive exchange and price policies are driving businessmen to black markets and smuggling to avoid bankruptcy. [redacted] b1, b3 b3

Huge budget deficits and growing shortages have sent consumer price inflation soaring toward triple-digit levels. The public deficit jumped from 21 percent of GDP in 1983 to 25 percent in 1984. At the same time, inflation more than doubled to 60 percent in 1984. Unemployment, currently estimated at 30 percent, is rising. [redacted] b3

Public services have deteriorated, and, [redacted] government-provided water, electricity, and telephones function only sporadically. [redacted] severe shortages of such basics as milk, rice, beans, toilet paper, soap, and light bulbs. [redacted] b1, b3 b3

Government Initiatives

Recent measures to ration foreign exchange and cut the budget deficit will put further economic and financial pressure on consumers and businessmen:

- On 4 February Managua more than doubled prices on many consumer goods in an attempt to get staples back into official channels. The 50-percent wage hike given at the same time—the first adjustment in two years—will only partially restore purchasing power.

- On 8 February Managua announced a new series of exchange rates, effectively devaluing the cordoba by half. Revised rates will further undercut

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private-sector access to imported consumer and producer goods. Under the system, exchange rates will range from 20 cordobas to the dollar for essential imports to 50 cordobas to the dollar for most nongovernment purchases.

- To finance increased defense spending, Managua has also announced a freeze on government employment and education spending, and a reduction in consumer subsidies, government investment, and social programs. [redacted] b3

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Stalling Creditors

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International Economic Leverage

Managua recognizes its economic vulnerabilities and has made an effort to diversify its markets and search for additional financial support. Its concerns probably have been heightened by the insurgents' calls for US trade sanctions on Managua. Sanctions by the United States alone, however—we doubt broad support from other Western nations—probably would lead to foreign exchange losses equal to less than 1 percent of GDP. Trade with the United States has already fallen sharply from prerevolution levels. Nicaragua's US sugar quota has been lifted; the United States has never imported much Nicaraguan cotton; and coffee sales have been shifted to Western Europe and CEMA countries [redacted] b3

We estimate Nicaragua would need a 10-percent increase in Communist financial support to compensate for export losses from unilateral trade sanctions. The Soviets, however, already have demonstrated their willingness to assist the Sandinistas further by offering increased oil financing. Nicaragua also probably would be able partially to evade US sanctions through third party front operations by relying on Cuban experience. [redacted] b3

The impact of unilateral US sanctions on imports probably would be harder for Managua to overcome. The $112 million in critical intermediate goods, spare parts, and machinery imported from the United States in 1984 would be difficult to replace in the medium term. A unilateral cutoff would, at least temporarily, add to consumer shortages and idle US-made equipment. [redacted] b3

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Beyond the Simple Economics

The indirect costs of sanctions—further strains on an already shallow managerial pool—probably would be substantial. Sandinista managers would have to assess the impact of export and import cutbacks, locate alternative markets, set new sales terms and shipping arrangements, coordinate delivery dates, and line up new financing and import priorities. Moreover, sanctions would intensify the Sandinistas' siege mentality and probably would cause the regime to shift resources to defense to counter a perceived US invasion threat. [redacted] b3

Even if there are no sanctions, the Sandinistas will need increased Communist support to shore up the economy. It is uncertain, however, whether Soviet support would ever be sufficient to assure the steady growth of the Nicaraguan economy. [redacted] b3

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